

**VILLAGE OF POSEN
PRESQUE ISLE COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006**

**VILLAGE OF POSEN
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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name VILLAGE OF POSEN	County PRESQUE ISLE
Fiscal Year End 12/31/06	Opinion Date 06/22/07	Date Audit Report Submitted to State 07/16/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

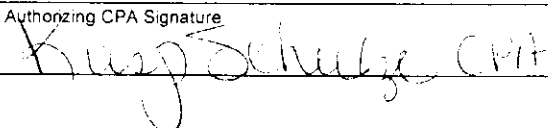
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) JOHNSON & SCHULZE PC		Telephone Number (989) 354-8707	
Street Address 139 W. WASHINGTON AVENUE		City ALPENA	State Zip MI 49707
Authorizing CPA Signature 	Printed Name KRISTY SCHULZE CPA		License Number 1101025896

**VILLAGE OF POSEN
VILLAGE OFFICIALS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

PRESIDENT	Marilyn Kaszubowski
CLERK	Julia Litwinski
TREASURER	Marcia Urban
TRUSTEES	Donald Roznowski Edwin Krajniak David Krentz Dennis Chalupniczak Ron Stoinski Laurie Wozniak

INDEPENDENT AUDITOR'S REPORT

Village Council
Village of Posen
Presque Isle County, Michigan

We have audited the financial statements of the governmental activities, business-type activities, major funds and the remaining fund information of the **Village of Posen, Presque Isle County, Michigan** (the "Village"), as of and for the year ended December 31, 2006, which collectively comprise the Village's basis financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for opinion.

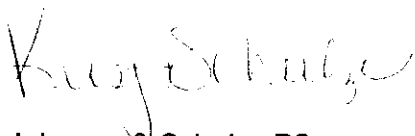
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Village as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, of those activities and fund and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The combining and individual fund statements and

schedules described in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 22, 2007, on our consideration of internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, grants and contracts. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

A handwritten signature in dark ink, appearing to read "K. Schulze", is positioned above the printed name.

Johnson & Schulze PC
Alpena, Michigan
June 22 , 2007

VILLAGE OF POSEN
MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Village's annual financial report presents our discussion and analysis of the Village's financial performance during the fiscal year ended December 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

FINANCIAL HIGHLIGHTS

Assets at December 31, 2006 totaled \$2,265,205 for all activities. Of the total, \$1,515,043 represents capital assets, net of depreciation.

Revenues derived from all activities were \$227,679 (\$68,099 from the water fund revenues and \$159,580 from governmental fund revenues). Overall expenditures for the Village's combined activities were \$260,236.

The Village has a special assessment revenue bond in the water fund with a balance due of \$465,000 as of December 31, 2006. Capital asset and debt activities are further disclosed in the Notes to Financial Statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: (1) Management's Discussion and Analysis (MD&A), (2) the basic financial statements, and (3) required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and/or business-type activities.

The remaining statements are fund financial statements, which focus on the individual parts of the Village in more detail.

The Notes to Financial Statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the Village as a whole, using accounting methods used by private companies. The Statement of Net Assets includes all of the Village's assets and liabilities. The Statement of Activities records all of the current year's revenues and expenditures, regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Village's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Village's net assets are an indicator of whether financial position is improving or deteriorating.

To assess the overall health of the Village, additional factors such as tax base changes, facility conditions, and personnel changes may be considered.

Most of the activities of the Village are reported as governmental activities. These would include the operations recorded in the General Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds, not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Board may also create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Village has the following types of funds:

Governmental Funds

The Governmental Funds account for most of the Village's basic services. They focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include the General Fund and Special Revenue Funds such as Major Street and Local Street. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs.

Proprietary Funds

Proprietary Funds account for the Village's enterprise fund. This fund reports services for which the Village charges customers for the service it provides. Proprietary funds are reported in the same

way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business-type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The enterprise fund is the Water Fund. The Village is responsible for ensuring that the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The financial statements required for proprietary funds include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Fund Net Assets; and a Statement of Cash Flows.

FUND ANALYSIS OF THE VILLAGE AS A WHOLE

Net Assets

The Village's net assets as of December 31, 2006 total \$1,459,503.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental Activities

The Village continued to provide the same services to its residents: administrative, assessing, elections, Village hall maintenance, road maintenance, tax collection, ambulance service and fire protection.

Capital Asset Administration

At December 31, 2006, the Village had \$2,081,960 in capital assets, including the town hall, land, computers and other office equipment, and Water Fund assets. Net of accumulated depreciation, the Village's capital assets total \$1,515,043.

CONTACTING VILLAGE MANAGEMENT

The financial report is designed to provide our citizens, creditors, investors, and customers with a general overview of the Village's finances and to demonstrate the Village's accountability for revenues it receives. If you have any questions concerning this report, or need additional information, please contact the Village Clerk at (989) 766-2301.

VILLAGE OF POSEN

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 315,703	\$ 94,662	\$ 410,365
Other receivables	23	336,412	336,435
Internal receivables	3,362	-	3,362
Capital Assets:			-
Land and Land Improvements	12,620	3,000	15,620
Infrastructure	361,654	-	361,654
Buildings	56,137	85,000	141,137
Equipment/Furnishings	64,012	9,500	73,512
Water system	-	1,490,037	1,490,037
Less: accumulated depreciation	(454,978)	(111,939)	(566,917)
 Total Assets	 358,533	 1,906,672	 2,265,205
LIABILITIES			
Accounts payable	528	400	928
Accrued interest	-	-	-
Deferred revenue	-	336,412	336,412
Internal payables	70	3,292	3,362
Revenue bonds payable:			-
Amount due within one year	-	5,000	5,000
Amount due more than one year	-	460,000	460,000
 Total Liabilities	 598	 805,104	 805,702
NET ASSETS			
Investment in capital assets net of related debt	39,445	1,010,598	1,050,043
Unrestricted	318,489	90,971	409,460
 Total Net Assets	 \$ 357,934	 \$ 1,101,569	 \$ 1,459,503

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

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VILLAGE OF POSEN

**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

FUNCTIONS / PROGRAMS	Expenses	Program Revenues		
		Charges for Services	Operating Grants / Contributions	Capital Grants / Contributions
<u>Governmental Activities</u>				
Legislative	\$ (17,578)	\$ -	\$ -	\$ -
General government	(23,888)	8,901	6,985	-
Public works / Transportation	(100,175)	-		65,823
Total Governmental Activities	(141,641)	8,901	6,985	65,823
<u>Business-type Activities</u>				
Water	(118,598)	67,290	-	-
Total Business-type Activities	(118,598)	67,290	-	-
Total Government	(260,239)	76,192	6,985	65,823
<u>General-Purpose Revenues</u>				
Property taxes				
State - shared revenues				
Unrestricted investment earnings				
Total General-Purpose Revenues				
Change in Net Assets				
Net Assets, beginning of year				
Net Assets, end of year				

Net Revenue & Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (17,578)	\$ -	\$ (17,578)
(8,002)	-	(8,002)
(34,352)	-	(34,352)
(59,932)	-	(59,932)
-	(51,308)	(51,308)
-	(51,308)	(51,308)
(59,932)	(51,308)	(111,240)
18,174	-	18,174
53,935	-	53,935
5,762	809	6,571
77,871	809	78,680
17,939	(50,499)	(32,560)
339,995	1,152,068	1,492,063
<u>\$ 357,934</u>	<u>\$ 1,101,569</u>	<u>\$ 1,459,503</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF POSEN
GOVERNMENTAL FUNDS
BALANCE SHEET
DECEMBER 31, 2006**

	<u>General</u>	<u>Major Streets</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash	\$ 58,486	\$ 226,176	\$ 31,041	\$ 315,703
Other receivables		\$ 23		23
Due from other funds	3,292	64	6	3,362
	<u>61,778</u>	<u>226,263</u>	<u>31,047</u>	<u>319,088</u>
Total Assets	<u>\$ 61,778</u>	<u>\$ 226,263</u>	<u>\$ 31,047</u>	<u>\$ 319,088</u>
LIABILITIES				
Accounts payable	\$ 511	\$ -	\$ 18	\$ 529
Due to other funds	-	6	64	70
	<u>511</u>	<u>6</u>	<u>82</u>	<u>599</u>
Total Liabilities	<u>511</u>	<u>6</u>	<u>82</u>	<u>599</u>
FUND BALANCES				
Unreserved, reported in				
General Fund	61,267	-	-	61,267
Special Revenue Funds	-	226,257	30,965	257,222
	<u>61,267</u>	<u>226,257</u>	<u>30,965</u>	<u>318,489</u>
Total Fund Balances	<u>61,267</u>	<u>226,257</u>	<u>30,965</u>	<u>318,489</u>
Total Liabilities and Fund Balances	<u>\$ 61,778</u>	<u>\$ 226,263</u>	<u>\$ 31,047</u>	<u>\$ 319,087</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

VILLAGE OF POSEN
GOVERNMENTAL FUNDS
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Total Fund Balances - Governmental Funds	\$ 318,489
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Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the
governmental funds balance sheet:

Capital assets, at cost	494,423
Accumulated depreciation	<u>(454,978)</u>

Total Net Assets - Governmental Activities	<u>\$ 357,934</u>
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See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

VILLAGE OF POSEN
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCED
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	General	Major Streets	Other Nonmajor Governmental Funds	Total
REVENUES				
Taxes	\$ 18,174	\$ -	\$ -	\$ 18,174
State grants	90,804	22,425	7,913	121,143
Interest and rentals	5,228	5,199	135	10,562
Other revenue	4,101	-	-	4,101
	<u>118,307</u>	<u>27,625</u>	<u>8,048</u>	<u>153,980</u>
Total Revenues	118,307	27,625	8,048	153,980
EXPENDITURES				
Legislative	17,578	-	-	17,578
General government	16,582	1,375	332	18,289
Public works / Transportation	89,770	4,825	3,039	97,633
	<u>123,929</u>	<u>6,200</u>	<u>3,371</u>	<u>133,500</u>
Total Expenditures	123,929	6,200	3,371	133,500
Excess of Revenues over Expenditures	(5,622)	21,425	4,677	20,481
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	-	-	5,600	5,600
Transfer to other funds	-	5,600	-	5,600
	<u>-</u>	<u>5,600</u>	<u>5,600</u>	<u>11,200</u>
Total Other Financing Sources (Uses)	-	5,600	5,600	11,200
Net Change in Fund Balance	(5,622)	15,825	10,277	20,481
Fund Balance, beginning of year	66,889	210,432	20,688	298,009
	<u>66,889</u>	<u>210,432</u>	<u>20,688</u>	<u>298,009</u>
Fund Balance, end of year	\$ 61,267	\$ 226,257	\$ 30,965	\$ 318,490
	<u>\$ 61,267</u>	<u>\$ 226,257</u>	<u>\$ 30,965</u>	<u>\$ 318,490</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

VILLAGE OF POSEN
GOVERNMENTAL FUNDS
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

Net change in Fund Balances - Governmental Funds	\$ 20,480
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental funds report capital outlays as expenditures, while in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Depreciation expense	(2,541)
Capital asset purchases capitalized	<u>-</u>
Change in Net Assets - Governmental Activities	<u><u>\$ 17,939</u></u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF POSEN
PROPRIETARY FUND
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Business-type Activities Enterprise Funds
	<u>Water Fund</u>
ASSETS	
Current Assets	
Cash	\$ 94,662
Total Current Assets	<u>94,662</u>
Noncurrent Assets	
Other receivables - noncurrent	336,412
Capital assets	
Land / Building	88,000
Equipment	9,500
Water system	1,490,037
Accumulated depreciation	<u>(111,939)</u>
Total noncurrent assets	<u>1,812,010</u>
Total Assets	1,906,672
LIABILITIES	
Current Liabilities	
Accounts Payable	400
Internal payable	3,292
Bonds payable	<u>5,000</u>
Total Current Liabilities	<u>8,692</u>
Noncurrent Liabilities	
Deferred revenue	336,412
Bonds payable	<u>460,000</u>
Total Noncurrent Liabilities	<u>796,412</u>
Total Liabilities	<u>805,104</u>
NET ASSETS	
Invested in capital assets net of related debt	1,010,598
Unrestricted	<u>90,971</u>
Total Net Assets	<u>\$ 1,101,569</u>
Reconciliation of Government-wide Statement of Net Assets:	
Net assets of business-type activities	<u>\$ 1,101,569</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

VILLAGE OF POSEN
PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND NET ASSETS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	Business-type Activities Enterprise Funds
	<u>Water Fund</u>
OPERATING REVENUES	
Charges for services	\$ 67,290
Total Operating Revenues	<u>67,290</u>
OPERATING EXPENDITURES	
Personal services	1,311
Contractual services	9,822
Licenses and fees	1,144
Utilities	5,321
Supplies and other	4,474
Depreciation	74,320
Total Operating Expenditures	<u>96,392</u>
Operating Income (Loss)	(29,102)
NONOPERATING REVENUES (EXPENDITURES)	
Interest income	809
Interest Expense	(22,206)
Total Nonoperating Revenues (Expenditures)	<u>(21,397)</u>
Change in Net Assets	(50,499)
Net Assets, beginning of year	<u>1,152,068</u>
Net Assets, end of year	<u>\$ 1,101,569</u>
Reconciliation:	
Net Change in Fund Balances - Proprietary Fund	<u>\$ (50,499)</u>
Change in Net Assets of Business-type Activities	<u>\$ (50,499)</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF POSEN
PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

	Business-type Activities Enterprise Funds
	<u>Water Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 45,110
Cash payments to suppliers for goods and services	(12,250)
Cash payments employees for services	(10,214)
Net Cash provided (used) by operating activities	<u>22,646</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	-
Interest paid on bonds	(22,206)
Principal payments on bonds	(5,000)
Capital grants	22,180
Net Cash provided (used) by capital and related financing activities	<u>(5,026)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	809
Net increase (decrease) in cash	<u>18,429</u>
Cash, beginning of year	76,233
Cash, end of year	<u><u>\$ 94,662</u></u>
Reconciliation of Income (Loss) from Operations to Net Cash Provided by Operating Activities	
Income (loss) from operations	\$ (50,499)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities	
Depreciation	74,320
Change in assets and liabilities:	
Increase (decrease) in due to other receivables	(1,575)
Increase (decrease) in accounts payable	400
Net cash provided (used) by operating activities	<u><u>\$ 22,646</u></u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Village of Posen, Presque Isle County, Michigan (the "Village") conform to generally accepted accounting principles ("GAAP") as applicable to governments. The following is a summary of the most significant policies.

The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. On January 1, 2004, the Village adopted the new governmental reporting model and implemented GASB Statement No.34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Under the provisions of this and other of the most current GASB statements, the focus of the Village's financial statements has shifted from a fund focus to a government-wide focus.

THE REPORTING ENTITY

The Village was organized in 1877, and covers an area of approximately one square mile. The Village operates under an elected Council comprised of a Village President, Treasurer, Clerk and six Trustees, and provides services to its approximately 300 full-time residents.

The Village's basic financial statements include the accounts of all Village operations. The criteria for including organizations as component units within the Village's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- The organization is legally separate (can sue and be sued in their own name)
- The Village holds the corporate powers of the organization
- The Village appoints a voting majority of the organization's board
- The Village is able to impose its will on the organization
- The organization has the potential to impose a financial benefit/burden on the Village; and/or
- There is fiscal dependency by the organization on the Village

Based on the aforementioned criteria, the Village has no component units.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which direct expenses of a given function or

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets and the operating statements present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services which are accrued. Expenses are recognized at the time the liability is incurred. The Village has presented the following major proprietary fund:

Water Fund

Water Fund is used to account for the provision of water services to the residents of the Village. Activities of the fund include administration, operating and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt. Costs are financed through charges to customers.

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The Village segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Major funds are generally those that represent ten percent (10%) or more of the respective fund type assets, liabilities, revenues or expenditures. All non-major funds are aggregated and presented in a single column.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

Property taxes, franchise fees, licenses, state-shared revenue, charges for service and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives cash.

The Village reports the following major governmental funds:

General Fund

The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Major Street Fund

Major Street Fund is a legally mandated fund to account for specific proceeds of revenue from the Michigan Department of Transportation and to account for the legally restricted expenditures of those funds related to the maintenance and construction of major roads within the Village.

The Village reports the following fiduciary fund:

Trust and Agency Fund

The Tax Collection fund is used to account for property taxes collected for the Village and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

ASSETS, LIABILITY AND NET ASSETS OR EQUITY

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

Investments

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental activities column in the government-wide financial statements. The Village defines capital assets as assets with an initial

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

individual cost of \$500 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repairs are charged to current expenditures as incurred. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	20-50 years
Land improvements	15-20 years
Vehicles	5-10 years
Furniture and other equipment	3-10 years

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent that portion of fund equity for which the Village has made tentative management plans that are subject to change. Undesignated fund balance indicates that portion of fund equity which is available for budgeting in future periods.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPARATIVE DATA

Comparative data for the prior year is not included in the Village's financial statements.

ACCOUNTING CHANGE

In June 1999, the GASB unanimously approved Statement No. 34, previously referenced in these Notes to Financial Statements. Effective January 1, 2004, the Village implemented the provisions of GASB 34. Changes to the Village's financial statements as a result of GASB 34 are as follows:

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations.
- Government-wide financial statements (Statement of Net Assets and Statements of Activities) prepared using full accrual accounting for all of the Village's activities.
- A change in the fund financial statements with a focus on major funds.
- Capital assets in the governmental activities column of the Statement of Net Assets include assets previously reported in the General Fixed Asset Account Group.
- Liabilities in the governmental column of the Statement of Net Assets include bonds and other long-term obligations previously reported in the General Long-term Debt Account Group.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets and Budgetary Accounting

Budgets are adopted by Village officials in compliance with GAAP and State law, specifically P.A. 621 of 1978 (the Uniform Budgetary Act), for the General and Special Revenue Funds.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Village to have its budget in place by January 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits entities to amend their budgets during the year; there was one significant amendment during the current fiscal year.

The Village follows the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year, commencing on January 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to December 31, the budget is legally enacted through passage of a resolution.
4. Budgeted amounts are as originally adopted, or as amended by the Village Council.
5. All appropriations lapse at year-end.

Budgets are to be prepared on the same basis of accounting as the financial statements.

Excess of Expenditures Over Appropriations in Budgeted Funds

P.A. 621 of 1978, Section 18 (1), as amended (MCL 141.421 et seq.) provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the governmental funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended December 31, 2006, the Village incurred two expenditures that exceeded the amount appropriated.

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

Fund Deficits

The Village had no accumulated fund balance deficits.

NOTE 3 – DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements, banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rates as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

All accounts are in the name of the Village and a specific fund. They are recorded in Village records at cost. Interest is recorded when deposits mature or is credited to the applicable account.

The caption on the combined balance sheet relating to cash and cash equivalents and investments of \$410,365 represents deposits in two financial institutions located in Presque Isle County, Michigan in varying amounts.

Investments are categorized into three categories of credit risk:

- Category 1 – Insured or registered, or securities held by the Village or its agent in the Village's name;
- Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and
- Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end the carrying amount of the Village's deposits were classified as to risk as follows:

	<u>Insured</u>	<u>Uninsured</u>	<u>Total</u>
Citizens National Bank	\$ 100,000	\$ 53,147	\$ 153,147
Calcite Credit Union	100,000	157,218	257,218
	<u>\$ 200,000</u>	<u>\$ 210,365</u>	<u>\$ 410,365</u>

VILLAGE OF POSEN

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 4 – PROPERTY TAXES

		Tax Roll Returned		
		to County		Collected 2006
December 1, 2005 Tax Levy		Uncollected 2006		Current Taxes,
Current Property Taxes , Fees & Others	2005 Tax Roll	Taxes		Fees & Other
Village of Posen	\$ 17,752	\$ 1,309		\$ 16,443

2006 SEV \$5,824,200

2006 Taxable Value \$4,262,419

Taxes are levied on December 1 of each year and are payable by February 15 of the following year. Payments after the February 15 date are considered delinquent. The County of Presque Isle's revolving Bond Fund purchases the delinquent real property taxes of the Village and payment is normally received by June 30. Delinquent personal property taxes are immaterial and not accrued.

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the current fiscal year follows:

	Balance 1/1/2006	Additions	Deletions	Balance 12/31/06
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 12,620	\$ -	\$ -	\$ 12,620
Capital assets being depreciated				
Buildings	56,137	-	-	56,137
Equipment	64,012	-	-	64,012
Infrastructure	361,654	-	-	361,654
Total capital assets being depreciated	481,803	-	-	481,803
Less: accumulated depreciation	(454,978)	-	-	(454,978)
Total capital assets being depreciated, net	26,825	-	-	26,825
Governmental activities capital assets, net	\$ 39,445	\$ -	\$ -	\$ 39,445

	Balance 1/1/2006	Additions	Deletions	Balance 12/31/06
Business-type activities:				
Capital assets not being depreciated				
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Capital assets being depreciated				
Buildings	85,000	-	-	85,000
Equipment	9,500	-	-	9,500
Infrastructure - Water System	1,490,037	-	-	1,490,037
Total capital assets being depreciated	1,584,537	-	-	1,584,537
Less: accumulated depreciation	(111,939)	-	-	(111,939)
Total capital assets being depreciated, net	1,472,598	-	-	1,472,598
Business-type activities capital assets, net	\$ 1,475,598	\$ -	\$ -	\$ 1,475,598

VILLAGE OF POSEN

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

Depreciation was charged to the Village's functions as follows:

Governmental activities	
General government	\$ 2,541
Total depreciation expense-governmental activities	<u>\$ 2,541</u>
Business-type activities	
Water	\$ 74,320
Total depreciation expense - business-type activities	<u>\$ 74,320</u>

This amount represents 2005 and 2006 depreciation for the Water fund.

NOTE 6 - LONG -TERM DEBT - WATER FUND

The following is a summary of the debt outstanding in the Village as of December 31, 2006:

Bonds	Interest Rate	Original Debt	Principal Outstanding
Water Fund-Series 2002	Up to 5.25%	\$ 483,000	\$ 465,000

The annual principal requirements for the years ending December 31, 2006 through 2009 for all debts outstanding as of December 31, 2006 are as follows:

	Amount
7/1/2007	5,000
7/1/2008	5,000
7/1/2009	5,000
Thereafter	450,000
Total	<u>\$ 465,000</u>

The following is a summary of long-term debt transactions of the Village for the year ended December 31, 2006:

Long-term debt at January 1, 2006	\$ 470,000
Principal payments	5,000
Balance December 31, 2006	<u>\$ 465,000</u>

NOTE 7 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical and worker's compensation benefits provided to employees. The Village has purchased commercial insurance for property, personal liability, umbrella coverage, worker's compensation and medical benefits claims. Settled claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years (see GASB Codification jSection C-50.141).

NOTES TO FINANCIAL STATEMENTS

December 31, 2006

NOTE 8 – PENSION PLAN

The Village provides pension benefits through a defined contribution plan covering all full-time employees, which is administered through an underwriter. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. In accordance with these requirements, pension expense for this fiscal year was \$720.

The plan was established in lieu of participation with the Social Security system. The Village is responsible to make payments to the plan at a Council-approved percentage of payroll rates. The Village has no ownership or responsibility for benefit payments to its employees. Sole responsibility for benefit payments has been transferred to its underwriter in the plan.

**INDEPENDENT AUDITORS' REPORT OVER INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS**

June 22, 2007

Honorable President and
Village Council Members
Village of Posen
Presque Isle County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Posen as of and for the year ended December 31, 2006, which collectively comprise the Village of Posen's basic financial statements, and have issued our report thereon dated June 22, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Posen's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Posen's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that the misstatement amounts would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee and management of the Village Council and State of Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Johnson & Schulze PC
Alpena, Michigan

VILLAGE OF POSEN
REQUIRED SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
DECEMBER 31, 2006

	Special Revenue Fund
	<u>Local Street Fund</u>
<u>Assets</u>	
Cash	\$ 31,041
Due from other funds	<u>6</u>
Total Assets	<u>\$ 31,047</u>
<u>Liabilities</u>	
Due to Other Funds	\$ 64
Accounts Payable	<u>18</u>
Total Liabilities	82
<u>Fund Balance</u>	<u>30,965</u>
Total Liabilities and Fund Balance	<u>\$ 31,047</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

VILLAGE OF POSEN
REQUIRED SUPPLEMENTAL INFORMATION
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

	Special Revenue Fund
	Local Street Fund
<u>Revenues</u>	
State grants	\$ 7,913
Interest and rentals	135
Total Revenues	<u>8,048</u>
<u>Expenditures</u>	
Public works	<u>3,371</u>
Total Expenditures	<u>3,371</u>
Excess of Revenues Over Expenditures	4,677
Other Financing Sources (Uses)	
Transfers form (to) other funds	<u>5,600</u>
Net Changes in Fund Balance	10,277
Fund Balance, beginning of year	<u>20,688</u>
Fund Balance, end of year	<u><u>\$ 30,965</u></u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF POSEN
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

	<u>Original budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>				
Taxes				
Current tax levy	\$ 16,000	\$ 16,443	\$ 16,443	\$ -
Delinquent taxes and fees	500	1,731	1,731	-
Total Taxes	<u>16,500</u>	<u>18,174</u>	<u>18,174</u>	<u>-</u>
State Grants				
State revenue sharing	22,000	23,596	23,596	-
Metro Act	1,500	1,385	1,385	-
State Grant-well abandonment	-	68,323	65,823	(2,500)
Liquor license	1,000	1,118	1,118	-
Total State Grants	<u>24,500</u>	<u>94,422</u>	<u>91,922</u>	<u>(2,500)</u>
Interest and Rentals				
Interest	600	428	428	-
Rents	4,800	4,800	4,800	-
Total Interest and Rentals	<u>5,400</u>	<u>5,228</u>	<u>5,228</u>	<u>-</u>
Other Revenues - Miscellaneous	<u>1,000</u>	<u>2,283</u>	<u>2,983</u>	<u>700</u>
Total Revenues	<u>\$ 47,400</u>	<u>\$ 120,107</u>	<u>\$ 118,307</u>	<u>\$ (1,800)</u>

(CONTINUED ON NEXT PAGE)

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF POSEN
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

(CONTINUED FROM PREVIOUS PAGE)

	Original budget	Final Amended Budget	Actual	Variance
<u>Expenditures</u>				
Legislative				
Village Council				
Trustee salaries	\$ 6,250	\$ 4,650	\$ 4,625	\$ 25
Fringes and taxes	1,800	1,123	1,135	(12)
Legal and audit	10,000	973	973	-
Zoning	1,600	1,205	1,205	-
Supplies and other	150	-	-	-
Total Legislative	19,800	7,951	7,938	13
General Government				
President				
Salary	1,600	1,360	1,360	-
Total President	1,600	1,360	1,360	-
Elections				
Wages	350	-	-	-
Supplies and other	800	68	68	-
Printing and publication	200	-	-	-
Total Elections	1,350	68	68	-
Clerk				
Salary	3,100	2,675	2,675	-
Supplies and other	500	326	326	-
Total Clerk	3,600	3,001	3,001	-

(CONTINUED ON NEXT PAGE)

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

**VILLAGE OF POSEN
OTHER SUPPLEMENTAL INFORMATION
GENERAL FUND**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006**

(CONTINUED FROM PREVIOUS PAGE)

	<u>Original budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
Expenditures				
Treasurer				
Salary	\$ 1,400	\$ 1,285	\$ 1,285	\$ -
Supplies and other	1,200	1,242	1,383	(141)
Total Treasurer	<u>2,600</u>	<u>2,527</u>	<u>2,668</u>	<u>(141)</u>
Village Hall				
Wages	-	-	-	-
Supplies	700	716	641	75
Office	100	-	-	-
Insurance	8,000	8,015	8,015	-
Utilities	4,300	3,337	3,337	0
Repairs and maintenance	3,950	862	862	0
Telephone	500	559	557	2
Other costs	7,700	5,578	5,553	25
Total Village Hall	<u>25,250</u>	<u>19,067</u>	<u>18,965</u>	<u>102</u>
 Total General Government	 34,400	 26,023	 26,062	 (39)
Public Works				
Repairs and maintenance	10,550	592	592	-
Water Superintendent Salary	5,000	2,809	2,760	49
Well Abandonment	-	80,704	80,629	75
Street lighting	5,000	5,949	5,949	0
Total Public Works	<u>20,550</u>	<u>90,054</u>	<u>89,930</u>	<u>124</u>
 Total Expenditures	 <u>74,750</u>	 <u>124,028</u>	 <u>123,930</u>	 <u>98</u>
 Excess of Revenues Over Expenditures	 (27,350)	 (3,921)	 (5,623)	 (1,702)
 Net Change in Fund Balance	 (27,350)	 (3,921)	 (5,623)	 (1,702)
 Fund Balance, beginning of year	 <u>66,889</u>	 <u>66,889</u>	 <u>66,889</u>	 <u>-</u>
 Fund Balance, end of year	 <u>\$ 39,539</u>	 <u>\$ 62,968</u>	 <u>\$ 61,266</u>	 <u>\$ (1,702)</u>

See Independent Auditor's Report.

The accompanying notes are an integral part of the financial statements.

June 22, 2007

Honorable President and
Village Council Members
Village of Posen
Presque Isle County, Michigan

We are very appreciative for the opportunity not only to bid the audit for the Village of Posen, but also to be of service to your organization.

Our office is submitting an electronic copy of the audited financial statements, as well as this letter of comments and recommendations in PDF format to the State Treasurer's office. The audit should be formally accepted by your board and indicated so in your board minutes.

We conducted our audit of the Financial Statements of the Village in accordance with the auditing standards generally accepted in the United States of America. The following summary explains both our responsibilities and the responsibilities of the management of the Village.

- Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

Materiality plays a very important role to auditors. We place a larger emphasis on items that have a greater chance of having a material error than those in which the possibility of such an error is remote. Materiality defined is, "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that the financial statements are free from material misstatement. Therefore, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implied in the phrase, "in our opinion."

Auditing standards require us to inform you of significant issues encountered in performing the audit. We have no significant issues to report to you at this time. Audit adjustments will be provided to and reviewed with management at a convenient time in the near future.

Comments and Recommendations for the 2006 Audit Only

1. Internal Controls

Due to a relatively small number of employees involved in the accounting process for the Village, it is very difficult for the Village to maintain a complete separation of duties. It is understood that a complete separation of duties is not realistic with the current board members. It is the Board's decision to determine to what extent it makes financial sense to separate the financial duties, i.e., at what point do the benefits of a stronger internal control outweigh the additional costs. We list this item within our comments and recommendations for the purpose of reminding the Board of the limitations in their internal control system.

We do not believe the internal control structure to be a material weakness and mention it only because it is a required communication of the Statement of Auditing Standards No. 60.

2. Depreciation

During the audit of the 2006 Financial Statements, it was discovered that depreciation for 2005 was not recorded. In order to have the accumulated depreciation correctly reported, the 2006 year contains twice as much depreciation expense. Because the Village is only required to be audited every other year, it went undiscovered.

Recommendation: We will provide depreciation schedules to the Village for recording purposes. If there are any questions regarding the entry or any additional assets that should be entered, please feel free to contact our office to have the schedules updated for entry purposes.

Acceptance by Board of Audited Financial Statements

We suggest that the Village board make a formal acceptance of the audited financial statements at the next available opportunity and note such in the minutes.

Lastly, we would like to close by extending our sincere gratitude to the Board for your patronage, as well as your trust in us to provide you with a quality audit on a timely basis. The management of the Village was excellent to work with, providing us with courteous and timely answers to our inquiries. We are always available should there be any questions, concerns or comments regarding this audit or any other issues that may arise.

Respectfully submitted,



Johnson & Schulze PC

Alpena, Michigan